

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 186

July 11, 1956

COMBINED REPORT: COMPUTATION OF LOSS ON LIQUIDATION OF SUBSIDIARY

Syllabus:

Loss on liquidation of a subsidiary must be reduced by reduction in California income resulting from the inclusion of the subsidiary's operating losses in the parent's combined report.

Advice has been requested as to the proper method of computing the allowable loss of a parent corporation, which is legally or commercially domiciled in California and reports in combined returns the income of its unitary business conducted within and without this State, sustains a loss on the liquidation of one of its subsidiaries.

The loss in question is an intangible loss deductible at the state of situs. Appeal of Dohrmann Commercial Company, State Board of Equalization, decided February 29, 1956. A very definite limitation in the application of this rule, however, is that in determining the amount of loss actually sustained, the reduction in California income which has resulted from prior inclusion of the subsidiary's losses in the combined return must be deducted from the parent's investment in the subsidiary. To allow a loss for the total investment in the subsidiary, would amount to a double deduction never contemplated under the law. See Inter-Island Steam Navigation Co., 42 BTA 1064; Charles Ilfeld Company v Hernandez, 292 US 61; Bush Terminal Buildings Co., 7 TC 793; and Iron Fireman Mfg. Co., 5 TC 452.